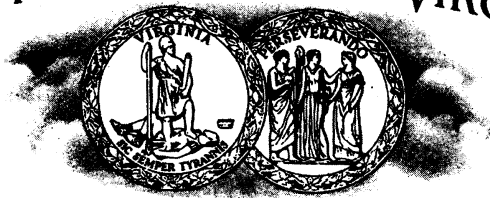


EXAMINATION REPORT
of
OPTIMA HEALTH PLAN
Virginia Beach, Virginia
as of
December 31, 2007

ALFRED W. GROSS
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA



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I, Alfred W. Gross, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Optima Health Plan as of December 31, 2007, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 3rd day of July, 2008

Alfred W. Gross
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
April 10, 2008

Honorable Alfred W. Gross
Commissioner of Insurance
Richmond, Virginia

Dear Sir:

Pursuant to your instructions and by authority of Section 38.2-4315 of the Code of Virginia, an examination of the records and affairs of

OPTIMA HEALTH PLAN

Virginia Beach, Virginia

hereinafter referred to as the Plan, has been completed. The report thereon is submitted for your consideration.

DESCRIPTION

The Plan became licensed in Virginia as a health maintenance organization ("HMO") pursuant to Chapter 43 of Title 38.2 of the Code of Virginia on August 31, 1984. The Plan operates as a capitated and fee-for-service individual practice association HMO. The Plan was last examined by representatives of the State Corporation Commission's Bureau of Insurance (the "Bureau") as of December 31, 2004. This examination covers the period from January 1, 2005 through December 31, 2007.

HISTORY

The Plan is a non-profit membership corporation without capital stock. The Plan was incorporated in the Commonwealth of Virginia on May 7, 1984. The initial member of the Plan was Alliance Health System (currently Sentara Healthcare and formerly Sentara Health System), which provided initial funding through Alliance Health Foundation. The Plan commenced business on December 1, 1984 and became federally qualified as an HMO on May 30, 1985. Through additional funding of the Plan, Maryview Hospital ("MH"), Sentara Hampton General Hospital ("SHGH"), and Virginia Beach General Hospital became members of the Plan.

Effective April 30, 1990, SHGH transferred its membership rights in the Plan to Sentara Healthcare ("SHC"). On July 20, 1990, SHC purchased Virginia Beach General Hospital's membership rights in the Plan. On December 30, 2003, SHC purchased MH's membership rights in the Plan. At December 31, 2007, SHC is the sole member of the Plan.

CAPITAL AND SURPLUS

At December 31, 2007, the Plan's capital and surplus was \$181,779,908. Capital and surplus was comprised of gross paid in and contributed surplus of \$13,000,000 and unassigned funds of \$168,779,908. Gross paid in and contributed surplus was provided to the Plan by SHC.

Between August 1, 1984 and December 31, 1989, the Plan executed subordinated loans with SHC totaling \$4,900,000. The Plan also executed subordinated loans with MH between March 1, 1985 and September 30, 1989 totaling \$1,480,000. Between June 1, 1987 and June 30, 1988, the Plan executed subordinated loan agreements with SHGH totaling \$1,110,000. Interest on the subordinated loans is stated at prime or prime plus 1%, adjusted annually.

On September 13, 1991 and January 8, 1992, the Bureau granted approval for the Plan to pay \$975,467 and \$290,299, respectively, in interest on its subordinated loans. On September 10, 1992, the Bureau granted approval for the Plan to pay \$538,385 in interest and \$2,461,615 in principal on its subordinated loans. On August 28, 1995, the Bureau granted approval for the Plan to pay \$317,323 in interest on its subordinated loans.

On May 1, 2001 and November 1, 2001, the Plan received capital contributions of \$5,000,000 and \$4,000,000, respectively, from SHC. On April 9, 2002, the Plan executed subordinated loan agreements with SHC effectively making the \$5,000,000 and \$4,000,000 capital contributions subordinated loans. The effective dates of the subordinated loan agreements are retroactive to May 1, 2001 and November 1, 2001.

On December 30, 2003, the Plan paid MH \$3,000,000 in principal and interest on its subordinated loans. On January 29, 2004, the Plan paid SHC \$18,893,128 in principal and interest on its subordinated loans. The payments to SHC and MH satisfied the balance of all outstanding subordinated loans owed by the Plan.

NET WORTH REQUIREMENT

Section 38.2-4302 of the Code of Virginia states that an HMO licensed in Virginia shall maintain a minimum net worth in an amount at least equal to the sum of uncovered expenses, but not less than \$600,000, up to a maximum of \$4,000,000. 14 VAC 5-210-60 A requires that an HMO report the sum of its uncovered expenses for each three-month period ending December 31, March 31, June 30 or September 30. Because the sum of the Plan's uncovered expenses for the three-month period ending December 31, 2007 was \$23,311,229 the Plan's minimum net worth requirement at December 31, 2007 was \$4,000,000.

MANAGEMENT AND CONTROL

As of December 31, 2007, the amended and restated articles of incorporation provide that SHC shall be the sole member. The amended and restated bylaws provide that the property, affairs and business of the Plan shall be managed under the direction of the Board of Directors (the "Board"). The number of Directors shall not be less than three nor more than sixteen. The Directors shall be divided into three classes with each class to be as nearly equal in number as possible. Directors shall hold office for a three-year term and each director may be re-elected upon the expiration of the three-year term.

Officers of the Plan shall consist of a Chairman, a President, a Secretary and a Treasurer who shall be elected by SHC at its annual meeting and who shall hold office for such terms as the Board may prescribe. Other officers, including one or more Vice Presidents and assistant subordinate officers, may from time to time be elected by SHC. Officers shall hold their office until their successors are elected.

At December 31, 2007, the Board and Officers were as follows:

<u>Directors</u>	<u>Principal Occupation</u>
Darlene S. Anderson	Senior Vice President, Operations Sentara Health Plans, Inc. Virginia Beach, Virginia
David L. Bernd	Chief Executive Officer Sentara Healthcare Norfolk, Virginia
Robert A. Broermann	System Vice President Sentara Healthcare Norfolk, Virginia

Michael M. Dudley	System Vice President Sentara Healthcare Virginia Beach, Virginia
Vicky G. Gray	Vice President, System Development Sentara Healthcare Norfolk, Virginia
James E. Haden	President and Chief Executive Officer Martha Jefferson Health Services Charlottesville, Virginia
George W. Hubbard	Surgeon Norfolk, Virginia
John F. Kalafsky, M.D.	Physician Norfolk, VA
Howard P. Kern	President and Chief Operating Officer Sentara Healthcare Norfolk, Virginia
Charles F. Lovell, Jr. M.D	Physician Norfolk, Virginia
E. George Middleton, Jr.	Chairman of the Board E.G. Middleton, Inc. Norfolk, Virginia
David M. Pariser, M.D.	Physician Norfolk, Virginia
Meredith B. Rose, M.D.	Physician Virginia Beach, Virginia
Theodore M. Wille, Jr.	Retired Virginia Beach, Virginia
Gary R. Yates, M.D.	Chief Medical Officer Sentara Healthcare Norfolk, Virginia

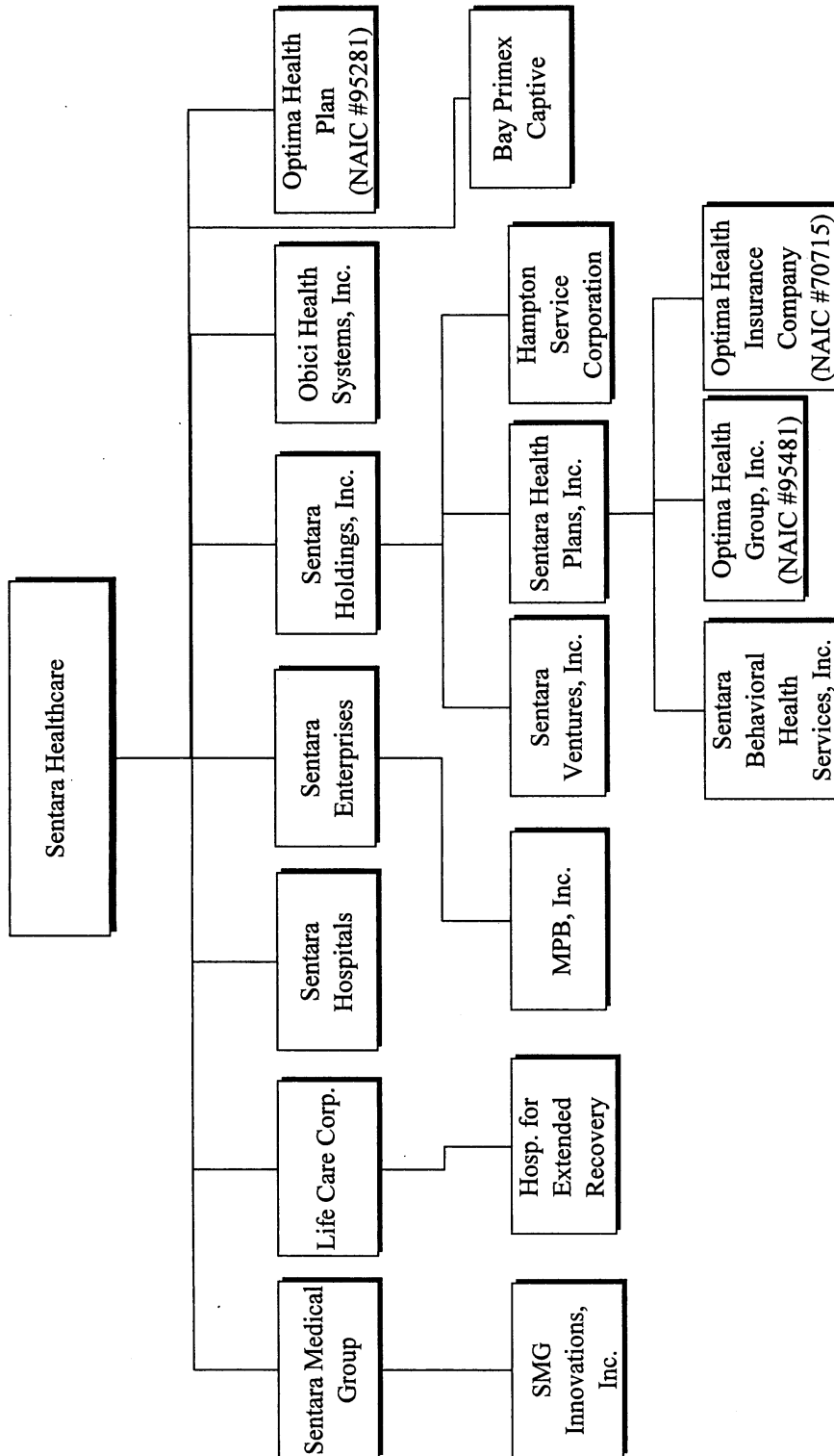
Officers

David L. Bernd	Chairman of the Board
Michael M. Dudley	President
Howard P. Kern	Secretary/Treasurer
Robert A. Broermann	Assistant Treasurer
Gail P. Heagen	Assistant Secretary

AFFILIATED COMPANIES

As of December 31, 2007, the amended and restated articles of incorporation provide that SHC shall be the sole member.

The chart on the following page illustrates the organizational structure of the Plan and selected affiliated entities at December 31, 2007:



TRANSACTIONS WITH AFFILIATES

Administrative Services and Marketing Agreement

Effective April 1, 2005, the Plan entered into an Administrative Services and Marketing Agreement with Sentara Health Plans, Inc. ("SHP"). According to the provisions of the agreement, SHP shall perform, or arrange for the performance of the administrative services necessary to fulfill the Plan's obligations under its Evidences of Coverage. The services include the following:

- Underwriting Services
- Enrollment Services
- Claims Administration Services
- Information Systems Services
- Premium Billing and Collecting
- Inquiries and Requests
- Administrative Material
- Investment Services
- Medical Care Management
- Provider Relations
- Marketing Services

As compensation for these services, the Plan shall pay SHP a monthly administrative fee. The administrative fee shall equal the actual costs incurred by SHP in providing the services and shall include the direct costs as well as the allocable portion of costs incurred by SHP in connection with providing such services. SHP will develop and periodically revise a cost allocation model to allocate appropriate administrative costs among the SHP companies. During 2007, the Plan incurred \$66,613,611 in administrative fees related to this agreement.

HMO Excess Risk Policy

Effective October 1, 2001, the Plan entered into a HMO Excess Risk Policy with Optima Health Insurance Company ("OHIC"). According to the terms of the policy, OHIC will reimburse the Plan 100% of the eligible services incurred in excess of the \$500,000 deductible per member per catastrophic event up to a maximum of \$1,000,000 per member per year. Eligible services are defined as those acute care hospital services, approved by the Plan, rendered to a member who is registered as a bed patient at a licensed acute care hospital. Covered services also include hospital services for members approved for transplants, except transplants performed at Sentara Norfolk General Hospital which are specifically excluded under the policy. The Plan pays OHIC a per

member per month rate set forth in the policy to cover all excess risk claims. The policy includes a continuation of coverage endorsement in the event of the Plan's insolvency

Provider Agreements

The Plan contracts with several subsidiaries of SHC to provide hospital, mental health physician services, and other medical services to its members.

Dividends

On August 5, 2005, the Plan filed a request with the Bureau to pay an extraordinary cash dividend of \$60,000,000 to SHC. The Bureau approved the Plan's request on September 7, 2005 and the dividend was paid on September 8, 2005. On March 15, 2006, the Plan filed a request with the Bureau to pay an extraordinary cash dividend of \$60,000,000 to SHC. The Bureau approved the Plan's request on June 27, 2006 and the dividend was paid on July 11, 2006. On June 5, 2007, the Plan filed a request with the Bureau to pay an extraordinary cash dividend of \$67,500,000 to SHC. The Bureau approved the Plan's request on June 21, 2007 and the dividend was paid on July 24, 2007.

TERRITORY AND PLAN OF OPERATION

At December 31, 2007, the Plan's service area, as reported in its 2007 Annual Statement, included the cities of Bedford, Buena Vista, Charlottesville, Chesapeake, Colonial Heights, Covington, Danville, Emporia, Franklin, Fredericksburg, Hampton, Harrisonburg, Hopewell, Lexington, Lynchburg, Martinsville, Newport News, Norfolk, Petersburg, Poquoson, Portsmouth, Radford, Richmond, Roanoke, Salem, Staunton, Suffolk, Virginia Beach, Waynesboro, Williamsburg and Winchester. In addition, the service area included the counties of Accomack, Albemarle, Amelia, Amherst, Appomattox, Augusta, Bath, Bedford, Botetourt, Brunswick, Buckingham, Campbell, Caroline, Charles City, Charlotte, Chesterfield, Clarke, Craig, Culpepper, Cumberland, Dinwiddie, Essex, Floyd, Fluvanna, Franklin, Frederick, Giles, Gloucester, Goochland, Greene, Greensville, Halifax, Hanover, Henrico, Henry, Highland, Isle of Wight, James City, King and Queen, King George, King William, Lancaster, Louisa, Lunenburg, Madison, Mathews, Mecklenburg, Middlesex, Montgomery, Nelson, New Kent, Northampton, Northumberland, Nottoway, Orange, Page, Patrick, Pittsylvania, Powhatan, Prince Edward, Prince George, Pulaski, Rappahannock, Richmond, Roanoke, Rockbridge, Rockingham, Shenandoah, Southampton, Spotsylvania, Stafford, Surry, Sussex, Warren, Westmoreland and York.

Medical services are provided by physicians in independent practice within the Plan's service area. Each member chooses a primary care physician ("PCP") from a list of the Plan's primary providers. The PCP is responsible for coordinating all of the member's health care needs. Except in emergencies, a member must obtain services only from, or prearranged by, their PCP. Specialist physicians are available only with a referral from a PCP. All hospital admissions must be arranged by an attending physician and approved in advance by the Plan.

At December 31, 2007, the Plan had a contract with the Virginia Department of Medical Assistance Services to administer coverage to Medicaid enrollees which comprised 48% of its premium revenue in 2007.

CONFLICT OF INTEREST

The Plan has adopted a conflict of interest policy. The objective of this policy is to ensure that each director, officer, and employee faithfully serves the Plan and refrains from doing anything which is adverse or prejudicial to the Plan's interest. To ensure compliance with the policy, the Plan has established procedures which require directors, officers and members of a committee with Board delegated powers to sign a conflict of interest disclosure form annually.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2007, the Plan was listed as a named insured on a commercial crime policy with a \$4,000,000 limit of liability, subject to a \$100,000 deductible, to insure against losses arising from dishonest acts of its officers and employees. Additionally, the Plan was listed as a named insured on a professional/commercial general liability policy, a commercial property insurance policy, a business automobile liability policy, a directors and officers liability policy and a workers compensation and employers liability policy.

PROVIDER CONTRACTS

Medical Services

The Plan has entered into agreements with numerous PCPs and specialist physicians to provide covered services to members. PCPs and specialist physicians are compensated on a fee for service basis at the lesser of billed charges or established fee schedules minus any applicable copayments.

Hospital Care

The Plan has entered into agreements with a number of hospitals in its service area to provide covered hospital services to members. The Plan compensates participating hospitals on either a discounted fee for service, a fixed per-diem, or a per case basis. The amounts paid to each hospital are based on terms disclosed in each individual agreement.

Other Health Care Services

The Plan provides other health care services to members through various ancillary agreements. These services include ambulance services, skilled nursing care, home health care, physical, occupational and speech therapy, laboratory and pharmaceutical services. Compensation is based on arrangements set forth in each contract.

CONTRACT FORMS

The group contract agreement generally covers the following services provided by PCPs, participating specialists and other professional providers:

1. Physician Services
2. Allergy Care
3. Hospital Services
4. Maternity Services
5. Family Planning/Infertility Services
6. Skilled Nursing Services
7. Home Health Care Skilled Services
8. Orthopedic and Prosthetic Appliances
9. Ambulance Service
10. Emergency Services
11. Mental Health Services
12. Durable Medical Equipment

Exclusions generally include any services or supplies that were not authorized or arranged by the member's PCP or the Plan; any service, supply, or treatment not specifically covered in the Evidence of Coverage; personal comfort items; private duty nursing; cosmetic surgery; costs of services covered by a group insurance mechanism or governmental program; eye surgery to correct refraction errors; school physicals; physical examinations for employment or insurance; and experimental medical, surgical or mental health care procedures or services. Other exclusions include treatment or drugs for smoking cessation; services and drugs in connection with obesity; routine footcare and foot orthotics; immunizations related to foreign travel or employment; coverage for a

newborn or other child of a dependent child; hearing aids, eyeglasses or contact lenses or the fitting thereof; and prescription drugs unless covered under a rider.

The above are abbreviated descriptions of the coverages and exclusions and each individual contract may vary.

GROWTH OF THE PLAN

The following data is representative of the growth of the Plan for the ten-year period ending December 31, 2007. The data is compiled from the Plan's filed Annual Statements, the previous examination reports and the current examination report.

<u>Year</u>	<u>Total Admitted Assets</u>	<u>Total Liabilities</u>	<u>Total Capital & Surplus</u>
1998	\$41,310,978	\$31,958,441	\$9,352,537
1999	54,214,512	42,150,064	12,064,448
2000	54,409,591	36,116,566	18,293,025
2001	56,054,763	47,951,131	8,103,632
2002	113,457,619	67,475,655	45,981,964
2003	152,871,591	72,501,798	80,369,793
2004	205,504,323	66,051,395	139,452,928
2005	233,599,423	72,163,742	161,435,681
2006	257,608,146	74,716,239	182,891,907
2007	264,820,340	83,040,432	181,779,908

<u>Year</u>	<u>Total Revenue</u>	<u>Net Investment Gains</u>	<u>Medical & Hospital Expenses</u>	<u>Administrative Expenses</u>	<u>Pre-Tax Income (Loss)</u>
1998	\$300,122,022		\$268,274,983	\$32,749,936	(\$902,897)
1999	363,003,267		327,600,206	36,110,824	(707,763)
2000	328,007,697		293,404,030	32,326,592	2,277,075
2001*	391,351,297	\$2,349,145	360,434,491	33,377,885	(111,934)
2002	489,739,199	2,202,429	431,216,116	40,908,047	19,817,465
2003	534,287,050	1,902,654	438,855,003	49,946,139	47,388,562
2004	585,745,279	2,272,219	480,484,654	47,492,240	60,040,604
2005	696,319,534	6,315,294	570,400,927	49,896,775	82,337,126
2006	781,674,346	11,036,442	650,305,571	62,379,346	80,025,871
2007	791,620,394	12,527,076	662,428,044	73,444,808	68,274,618

*Prior to 2001, Net investment gains or losses were included in Total Revenue.

The Plan's enrollment data at year-end is illustrated as follows:

<u>Year</u>	<u>Number of Members</u>
1998	164,004
1999	187,773
2000	180,071
2001	202,072
2002	200,312
2003	196,809
2004	221,777
2005	243,142
2006	244,010
2007	246,393

EXCESS LOSS INSURANCE

Effective April 1, 2007, the Plan entered into an Excess Risk Insurance Agreement with HCC Life Insurance Company ("HCC"). For eligible expenses, the deductible is \$1,000,000 per member for each contract year except the largest claim in a contract year in which the deductible is \$1,300,000. Once the deductible has been reached in a contract year, HCC will reimburse the Plan 90% of all eligible expenses up to a maximum of \$5,000,000 per member per contract year. The agreement includes a continuation of coverage endorsement in the event of the Plan's insolvency.

Effective October 1, 2001, the Plan entered into a HMO Excess Risk Policy with OHIC. The specific terms of the contract are discussed in the Transactions with Affiliates section of the examination report

SPECIAL RESERVES AND DEPOSITS

At December 31, 2007, the Bureau required the Plan to maintain a minimum deposit of \$2,700,000 with the Treasurer of Virginia.

SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period from January 1, 2005 through December 31, 2007. Assets were verified and liabilities were established at December 31, 2007. A review of income and disbursements for the period was made to the extent deemed necessary.

The items comprising the Balance Sheet for which Specific Risk Analyses (SRA) were required had medium or low risk assessments as determined from the National Association of Insurance Commissioners Examiners Handbook. Analytical review procedures were applied to non-SRA items.

In addition, the following items were reviewed, several of which are discussed separately under their respective captions in this report.

History
Corporate Records
Management and Control
Transactions with Affiliates
Territory and Plan of Operation
Conflict of Interest
Provider Contracts
Contract Forms
Excess Loss Insurance
Special Reserves and Deposits
Accounts and Records
Financial Statements

FINANCIAL STATEMENTS

There follows a statement of financial condition at December 31, 2007; a statement of revenue and expenses for the year ending December 31, 2007; a reconciliation of capital and surplus for the period under review; and a statement of cash flow for the year ending December 31, 2007. The financial statements are presented in accordance with Statutory Accounting Principles.

ASSETS

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$33,721,202		\$33,721,202
Cash and short-term investments	<u>225,062,877</u>	<u></u>	<u>225,062,877</u>
Subtotals, cash and invested assets	\$258,784,079	\$0	\$258,784,079
Investment income due and accrued	363,026		363,026
Uncollected premiums and agents' balances in the course of collection	2,446,981	917,991	1,528,990
Electronic data processing equipment and software	998,026		998,026
Furniture and equipment, including health care delivery assets	500,686	500,686	0
Receivables from parent, subsidiaries and affiliates	567,764		567,764
Health care and other amounts receivable	4,312,044	1,733,589	2,578,455
Aggregate write-ins for other than invested assets	<u>364,581</u>	<u>364,581</u>	<u>0</u>
Total assets	<u><u>\$268,337,187</u></u>	<u><u>\$3,516,847</u></u>	<u><u>\$264,820,340</u></u>

LIABILITIES, CAPITAL AND SURPLUS

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>
Claims unpaid	\$64,550,929	\$2,194,043	\$66,744,972
Accrued medical incentive pool and bonus amounts	117,247		117,247
Unpaid claims adjustment expenses		1,342,772	1,342,772
Aggregate health policy reserves	247,148	8,400	255,548
Aggregate health claim reserves	1,889,999	64,240	1,954,239
Premiums received in advance	1,308,095		1,308,095
Income tax payable and interest thereon		6,313,000	6,313,000
Amounts due to parent, subsidiaries and affiliates		1,742,189	1,742,189
Aggregate write-ins for other liabilities	<u>3,262,370</u>		<u>3,262,370</u>
Total liabilities	<u>\$71,375,788</u>	<u>\$11,664,644</u>	<u>\$83,040,432</u>
Gross paid in and contributed surplus			\$13,000,000
Unassigned funds (surplus)			<u>168,779,908</u>
Total capital and surplus			<u>\$181,779,908</u>
Total liabilities, capital and surplus			<u><u>\$264,820,340</u></u>

STATEMENT OF REVENUE AND EXPENSES

	<u>Uncovered</u>	<u>Total</u>
Net premium income	XXX	\$791,164,056
Change in unearned premium reserves	XXX	(1,501)
Aggregate write-ins for other health care related revenues	XXX	457,839
Total revenues	<u>XXX</u>	<u>\$791,620,394</u>
Hospital and Medical		
Hospital/medical benefits	\$18,811,879	\$494,480,535
Outside referrals	258,818	258,818
Emergency room and out-of-area	2,704,662	40,977,225
Prescription drugs		118,006,600
Aggregate write-ins for other hospital and medical		8,557,465
Incentive pool, withhold adjustments and bonus amounts		936,790
Subtotal	<u>\$21,775,359</u>	<u>\$663,217,433</u>
Less:		
Net reinsurance recoveries		789,389
Total hospital and medical	<u>\$21,775,359</u>	<u>\$662,428,044</u>
Claims adjustment expenses	12,461,766	12,461,766
General administrative expenses	60,174,467	60,983,042
Total underwriting deductions	<u>\$94,411,592</u>	<u>\$735,872,852</u>
Net underwriting gain	<u>XXX</u>	<u>\$55,747,542</u>
Net investment income earned		\$12,284,825
Net realized capital gains		242,251
Net investment gains		<u>\$12,527,076</u>
Net income before federal income taxes	XXX	\$68,274,618
Federal income taxes incurred	<u>XXX</u>	<u>92,000</u>
Net income	<u>XXX</u>	<u>\$68,182,618</u>

RECONCILIATION OF CAPITAL AND SURPLUS

	<u>2005</u>	<u>2006</u>	<u>2007</u>
Capital and surplus prior reporting year	<u>\$139,452,928</u>	<u>\$161,435,681</u>	<u>\$182,891,907</u>
GAINS AND LOSSES TO CAPITAL AND SURPLUS			
Net income	\$82,335,126	\$79,793,271	\$68,182,618
Change in nonadmitted assets	(397,315)	1,616,925	(1,920,939)
Dividends to stockholders	(60,000,000)	(60,000,000)	(67,500,000)
Aggregate write-ins for gains or (losses) in surplus	<u>44,942</u>	<u>46,030</u>	<u>126,322</u>
Net change in capital and surplus	<u>\$21,982,753</u>	<u>\$21,456,226</u>	<u>(\$1,111,999)</u>
Capital and surplus end of reporting year	<u><u>\$161,435,681</u></u>	<u><u>\$182,891,907</u></u>	<u><u>\$181,779,908</u></u>

CASH FLOW**Cash from Operations**

Premiums collected net of reinsurance	\$797,535,870
Net investment income	12,525,065
Miscellaneous income	457,839
Total	<u>\$810,518,774</u>
Benefit and loss related payments	\$660,062,676
Commissions, expenses paid and aggregate write-ins for deductions	67,131,808
Federal income taxes paid	92,000
Total	<u>\$727,286,484</u>
Net cash from operations	<u>\$83,232,290</u>

Cash from Investments

Proceeds from investments sold, matured or repaid:	
Bonds	\$28,782,956
Miscellaneous proceeds	178,492
Total investment proceeds	<u>\$28,961,448</u>
Cost of investments acquired (long-term only):	
Bonds	\$27,715,105
Miscellaneous applications	242,252
Total investment acquired	<u>\$27,957,357</u>
Net cash from investments	<u>\$1,004,091</u>

Cash from Financing and Miscellaneous Sources

Cash provided (applied):	
Dividends to stockholders	(\$67,500,000)
Other cash (applied)	<u>(1,931,756)</u>
Net cash from financing and miscellaneous sources	<u>(\$69,431,756)</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments	\$14,804,625
Cash and short-term investments:	
Beginning of the year	<u>210,258,252</u>
End of the year	<u>\$225,062,877</u>

EXAMINERS' CHANGES IN CAPITAL AND SURPLUS

	<u>Plan</u>	<u>Examiners</u>	Increase (Decrease)
<u>Liabilities:</u>			
Income tax payable and interest thereon	\$0	\$6,313,000	<u>(\$6,313,000)</u>
Examiners' change in capital and surplus			<u>(\$6,313,000)</u>
Total capital and surplus per the Plan			\$188,092,908
Total capital and surplus per the Examiners			<u>181,779,908</u>
Net change in capital and surplus			<u>(\$6,313,000)</u>

RECOMMENDATION FOR CORRECTIVE ACTION**Accounts and Records**

1. **Income tax payable and interest thereon** **\$6,313,000**

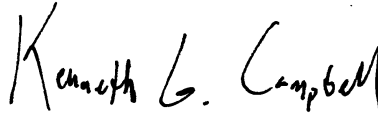
The above liability has been established by the Examiners at December 31, 2007. Although the Plan is recognized as a non-profit, tax exempt entity for federal and state income tax purposes, income generated by the Plan that is unrelated to the purpose in which it is deemed tax exempt (unrelated business income) is subject to federal and state income taxes. It was determined that certain income generated by the Plan in 2007 and prior years could be deemed to be unrelated business income and could therefore be taxable by federal and state authorities. Because of the uncertainty as to whether this income would be deemed unrelated business income and taxable, the Examiners have treated it as if it is unrelated business income and have established a liability for federal and state income taxes.

CONCLUSION

The courteous cooperation extended by the Plan's officers and employees during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Darrin Bailey, CFE, Cliff Lewis, CFE, George Morgan, CFE, and LeShan Smith participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink that reads "Kenneth G. Campbell". The signature is written in a cursive style with a large initial "K".

Kenneth G. Campbell, CFE
Assistant Chief Examiner

STATE CORP COMMISSION
BUREAU OF INSURANCE

08 JUN 19 AM 9:42

6015 Poplar Hall Drive
Suite 210
Norfolk, VA 23502
Tel: 757.455.7450
Fax: 757.455.7240
www.optimahealth.com

June 17, 2008

David Smith, CFE, CPA, CPCU
Chief Examiner
State Corporation Commission
Bureau of Insurance
P. O. Box 1157
Richmond, VA 23218

RE: Optima Health Plan
Examination Report as of December 31, 2007

Dear Mr. Smith:

As requested, management's response is provided for the Recommendation for Corrective Action in the Examination Report as of December 31, 2007. We appreciate the suggestion and observation that resulted from the examination.

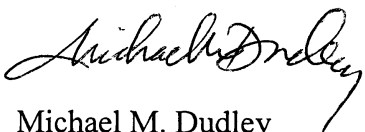
Accounts and Records

1. Income tax payable and interest thereon

Procedures have been implemented to recognize a liability for federal and state income taxes for unrelated business income on a monthly basis.

If you have any questions, please contact Andrew Palmer, Controller, at 757-252-8011.

Sincerely,



Michael M. Dudley
President

Cc: Andrew M. Palmer